

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-----------------------------------|---|---------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name City of Reading | County Hillsdale |
| Fiscal Year End June 30, 2007 | Opinion Date December 21, 2007 | Date Audit Report Submitted to State December 21, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

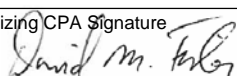
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|-------------------------------------|--|-------------|-------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input checked="" type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | | |
| Other (Describe) | <input checked="" type="checkbox"/> | Single Audit | | |
| Certified Public Accountant (Firm Name) REHMANN ROBSON | | Telephone Number 517-787-6503 | | |
| Street Address 675 Robinson Road | | City Jackson | State MI | Zip 49203 |
| Authorizing CPA Signature  | | Printed Name David M. Fisher, CPA | | License Number 10337 |

CITY OF READING, MICHIGAN

Financial Statements

**For The Fiscal Year Ended
June 30, 2007**



REHMANN ROBSON

Certified Public Accountants

CITY OF READING, MICHIGAN
For the Fiscal Year Ended June 30, 2007

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CITY OF READING, MICHIGAN
For the Fiscal Year Ended June 30, 2007

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



Independent Auditors' Report

December 21, 2007

The Honorable Mayor and
Members of the City Council
City of Reading
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Reading, Michigan*, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining aggregate fund information of the City of Reading, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and major streets special revenue fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report in a separate report dated December 21, 2007, on our consideration of the City of Reading's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Reading
Statement of Net Assets
June 30, 2007

| | Primary Government | | | Component Unit |
|---|------------------------------------|-------------------------------------|---------------------|---------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents | \$ 625,478 | \$ 752,830 | \$ 1,378,308 | \$ 146,023 |
| Receivables | 81,698 | 578,294 | 659,992 | 4,863 |
| Internal balances | (6,444) | 6,444 | - | - |
| Prepaid items and other assets | - | 18,680 | 18,680 | - |
| Investment in joint venture | 80,227 | - | 80,227 | - |
| Assets held for resale | - | - | - | 909,469 |
| Capital assets not being depreciated | 60,299 | 2,044,329 | 2,104,628 | - |
| Capital assets being depreciated, net | 435,142 | 2,181,916 | 2,617,058 | 10,424 |
| Total assets | 1,276,400 | 5,582,493 | 6,858,893 | 1,070,779 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | 9,366 | 482,780 | 492,146 | 10,313 |
| Long-term debt: | | | | |
| Due within one year | 10,000 | 33,000 | 43,000 | 20,616 |
| Due in more than one year | 71,121 | 2,953,132 | 3,024,253 | 539,287 |
| Total liabilities | 90,487 | 3,468,912 | 3,559,399 | 570,216 |
| Net assets | | | | |
| Invested in capital assets, net of related debt | 420,441 | 1,246,556 | 1,666,997 | - |
| Unrestricted | 765,472 | 867,025 | 1,632,497 | 500,563 |
| Total net assets | \$ 1,185,913 | \$ 2,113,581 | \$ 3,299,494 | \$ 500,563 |

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Activities
For the Year Ended June 30, 2007

| <u>Functions / Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense)</u> |
|------------------------------------|------------------------|--------------------------------|-----------------------------|-----------------------------|
| | | <u>Charges</u> | <u>Operating</u> | |
| | | <u>for Services</u> | <u>Grants and</u> | <u>Revenue</u> |
| | | | <u>Contributions</u> | |
| | | | <u>Grants and</u> | |
| | | | <u>Contributions</u> | |
| Primary government | | | | |
| Governmental activities: | | | | |
| General government | \$ 172,388 | \$ 26,191 | \$ 129,769 | \$ (16,428) |
| Public safety | 78,713 | 4,746 | 500 | (73,467) |
| Public works | 59,995 | - | - | (59,995) |
| Highways and streets | 85,591 | - | 78,514 | (7,077) |
| Community development | 37,413 | - | 40,150 | 2,737 |
| Recreation and culture | - | - | 185 | 185 |
| Interest on long-term debt | 3,049 | - | - | (3,049) |
| Total governmental activities | <u>437,149</u> | <u>30,937</u> | <u>249,118</u> | <u>(157,094)</u> |
| Business-type activities: | | | | |
| Sewer | 123,569 | 398,224 | - | 274,655 |
| Water | 239,645 | 216,577 | - | (23,068) |
| Refuse | 54,944 | 54,606 | - | (338) |
| Total business-type activities | <u>418,158</u> | <u>669,407</u> | <u>-</u> | <u>251,249</u> |
| Total primary government | <u>\$ 855,307</u> | <u>\$ 700,344</u> | <u>\$ 249,118</u> | <u>\$ 94,155</u> |
| Component unit | | | | |
| Tax Increment Finance Authority | <u>\$ 103,784</u> | <u>\$ 50,555</u> | <u>\$ -</u> | <u>\$ (53,229)</u> |

continued...

City of Reading
Statement of Activities (Concluded)
For the Year Ended June 30, 2007

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> | <u>Component Unit</u> |
|---|------------------------------------|-------------------------------------|---------------------|---------------------------|
| Changes in net assets | | | | |
| Net (expense) revenue | \$ (157,094) | \$ 251,249 | \$ 94,155 | \$ (53,229) |
| General revenues: | | | | |
| Property taxes | 146,236 | - | 146,236 | 80,745 |
| Grants and contributions not restricted to specific programs | 8,855 | - | 8,855 | - |
| Unrestricted investment earnings | 26,046 | 10,512 | 36,558 | 4,452 |
| Gain on sale of capital assets | 975 | - | 975 | - |
| Transfers - internal activities | 31,794 | (31,794) | - | - |
| Total general revenues and transfers | 213,906 | (21,282) | 192,624 | 85,197 |
| Change in net assets | 56,812 | 229,967 | 286,779 | 31,968 |
| Net assets, beginning of year, as restated | 1,129,101 | 1,883,614 | 3,012,715 | 468,595 |
| Net assets, end of year | <u>\$ 1,185,913</u> | <u>\$ 2,113,581</u> | <u>\$ 3,299,494</u> | <u>\$ 500,563</u> |

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

City of Reading
Balance Sheet
Governmental Funds
June 30, 2007

| | General | Major Streets | Nonmajor Funds | Total Governmental Funds |
|---|-------------------|--------------------------|---------------------------|---|
| <u>ASSETS</u> | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 419,920 | \$ 24,521 | \$ 9,241 | \$ 453,682 |
| Other receivables | 399 | - | - | 399 |
| Due from other governments | 48,415 | 9,786 | 3,425 | 61,626 |
| Taxes receivable | 19,673 | - | - | 19,673 |
| Due from other funds | 1,500 | - | - | 1,500 |
| <u>TOTAL ASSETS</u> | \$ 489,907 | \$ 34,307 | \$ 12,666 | \$ 536,880 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 4,529 | \$ 25 | \$ 385 | \$ 4,939 |
| Accrued payroll | 2,023 | 361 | 345 | 2,729 |
| Total liabilities | 6,552 | 386 | 730 | 7,668 |
| Fund balances: | | | | |
| Unreserved: | | | | |
| Undesignated | 483,355 | 33,921 | - | 517,276 |
| Undesignated, reported in nonmajor: | | | | |
| Special revenue funds | - | - | 4,596 | 4,596 |
| Permanent fund | - | - | 7,340 | 7,340 |
| Total fund balances | 483,355 | 33,921 | 11,936 | 529,212 |
| <u>TOTAL LIABILITIES AND FUND BALANCES</u> | \$ 489,907 | \$ 34,307 | \$ 12,666 | \$ 536,880 |

The accompanying notes are an integral part of these financial statements.

City of Reading
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

| | |
|--|------------|
| Fund balances - total governmental funds | \$ 529,212 |
|--|------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|--|---------|
| Add: capital assets not being depreciated | 60,299 |
| Add: capital assets being depreciated, net | 263,958 |

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

| | |
|--|---------|
| Add: net assets of governmental internal service funds | 333,122 |
|--|---------|

Certain assets used in governmental activities are not financial resources and therefore are reported in the funds.

| | |
|----------------------------------|--------|
| Add: Investment in joint venture | 80,227 |
|----------------------------------|--------|

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

| | |
|---|----------|
| Deduct: long-term portion of installment debt | (65,000) |
| Deduct: current portion of installment debt | (10,000) |
| Deduct: accrued interest on installment debt | (247) |
| Deduct: compensated absences and other benefits | (5,658) |

| | |
|---------------------------------------|----------------------------|
| Net assets of governmental activities | <u><u>\$ 1,185,913</u></u> |
|---------------------------------------|----------------------------|

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

| | General | Major Streets | Nonmajor Funds | Total Governmental Funds |
|---------------------------------------|-------------------|------------------|-------------------|--------------------------------|
| Revenues | | | | |
| Property taxes | \$ 146,236 | \$ - | \$ - | \$ 146,236 |
| Intergovernmental | 130,019 | 57,828 | 19,938 | 207,785 |
| Charges for services | 22,590 | - | - | 22,590 |
| Licenses and permits | 6,081 | - | - | 6,081 |
| Fines and forfeitures | 66 | - | - | 66 |
| Investment earnings | 21,325 | 748 | 51 | 22,124 |
| Lease revenue | 2,200 | - | - | 2,200 |
| Contributions | 40,150 | - | - | 40,150 |
| Other | 9,290 | - | - | 9,290 |
| Total revenues | <u>377,957</u> | <u>58,576</u> | <u>19,989</u> | <u>456,522</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 156,854 | - | - | 156,854 |
| Public safety | 78,713 | - | - | 78,713 |
| Public works | 18,201 | - | 41,794 | 59,995 |
| Highways and streets | - | 43,762 | 39,981 | 83,743 |
| Community development | 37,413 | - | - | 37,413 |
| Debt service: | | | | |
| Principal | 10,000 | - | - | 10,000 |
| Interest and fiscal charges | 3,049 | - | - | 3,049 |
| Total expenditures | <u>304,230</u> | <u>43,762</u> | <u>81,775</u> | <u>429,767</u> |
| Revenues over (under) expenditures | <u>73,727</u> | <u>14,814</u> | <u>(61,786)</u> | <u>26,755</u> |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 66,794 | 66,794 |
| Transfers out | (15,000) | (15,000) | (5,000) | (35,000) |
| Total other financing sources (uses) | <u>(15,000)</u> | <u>(15,000)</u> | <u>61,794</u> | <u>31,794</u> |
| Net change in fund balances | 58,727 | (186) | 8 | 58,549 |
| Fund balances, beginning of year | <u>424,628</u> | <u>34,107</u> | <u>11,928</u> | <u>470,663</u> |
| Fund balances, end of year | <u>\$ 483,355</u> | <u>\$ 33,921</u> | <u>\$ 11,936</u> | <u>\$ 529,212</u> |

The accompanying notes are an integral part of these financial statements.

City of Reading
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

| | |
|--|-----------|
| Net change in fund balances - total governmental funds | \$ 58,549 |
|--|-----------|

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|------------------------------|----------|
| Deduct: depreciation expense | (13,975) |
|------------------------------|----------|

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

| | |
|--|---------|
| Deduct: net operating loss from governmental activities in the internal service fund | (2,742) |
| Add: interest revenue from governmental internal service fund | 4,670 |
| Add: gain on disposal of capital assets | 975 |

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|--|--------|
| Add: principal payments on long-term liabilities | 10,000 |
|--|--------|

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

| | |
|--|-------|
| Deduct: increase in accrued interest payable on bonds | (247) |
| Deduct: increase in the accrual for compensated absences | (418) |

| | |
|---|-----------|
| Change in net assets of governmental activities | \$ 56,812 |
|---|-----------|

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2007
General Fund

| | Original Budget | Final Budget | Actual | Over (Under) Budget |
|---------------------------------------|----------------------------|-------------------------|-------------------|------------------------------------|
| Revenues | | | | |
| Property taxes | \$ 145,133 | \$ 145,133 | \$ 146,236 | \$ 1,103 |
| Intergovernmental | 130,289 | 130,289 | 130,019 | (270) |
| Charges for services | 16,100 | 16,100 | 22,590 | 6,490 |
| Licenses and permits | 5,600 | 5,600 | 6,081 | 481 |
| Fines and forfeitures | 150 | 150 | 66 | (84) |
| Investment earnings | 9,000 | 9,000 | 21,325 | 12,325 |
| Lease revenue | 2,400 | 2,400 | 2,200 | (200) |
| Contributions | 4,800 | 4,800 | 40,150 | 35,350 |
| Other | 4,500 | 4,500 | 9,290 | 4,790 |
| Total revenues | 317,972 | 317,972 | 377,957 | 59,985 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 155,551 | 171,201 | 156,854 | (14,347) |
| Public safety | 104,403 | 104,403 | 78,713 | (25,690) |
| Public works | 17,400 | 17,400 | 18,201 | 801 |
| Community development | 40,069 | 40,069 | 37,413 | (2,656) |
| Recreation and culture | 3,000 | 3,000 | - | (3,000) |
| Debt service: | | | | |
| Principal | 10,000 | 10,000 | 10,000 | - |
| Interest and fiscal charges | 3,053 | 3,053 | 3,049 | (4) |
| Total expenditures | 333,475 | 349,125 | 304,230 | (44,895) |
| Revenues over (under) expenditures | (15,503) | (31,153) | 73,727 | 104,880 |
| Other financing sources (uses) | | | | |
| Transfers out | (73,626) | (57,976) | (15,000) | 42,976 |
| Total other financing sources (uses) | (73,626) | (57,976) | (15,000) | 42,976 |
| Net change in fund balances | (89,129) | (89,129) | 58,727 | 147,856 |
| Fund balances, beginning of year | 424,628 | 424,628 | 424,628 | - |
| Fund balances, end of year | \$ 335,499 | \$ 335,499 | \$ 483,355 | \$ 147,856 |

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Major Streets Special Revenue Fund
For the Year Ended June 30, 2007

| | Original Budget | Original/ Amended Budget | Actual | Over (Under) Budget |
|-----------------------------------|----------------------------|---|------------------|------------------------------------|
| Revenue | | | | |
| Intergovernmental | \$ 58,800 | \$ 58,800 | \$ 57,828 | \$ (972) |
| Interest | 250 | 250 | 748 | 498 |
| Total revenue | 59,050 | 59,050 | 58,576 | (474) |
| Expenditures | | | | |
| Public works | 62,704 | 62,704 | 43,762 | (18,942) |
| Revenue over (under) expenditures | (3,654) | (3,654) | 14,814 | (19,416) |
| Other financing uses | | | | |
| Transfers out | (16,000) | (16,000) | (15,000) | 1,000 |
| Net change in fund balance | (19,654) | (19,654) | (186) | (18,416) |
| Fund balance, beginning of year | 34,107 | 34,107 | 34,107 | - |
| Fund balance, end of year | \$ 14,453 | \$ 14,453 | \$ 33,921 | \$ 19,468 |

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Net Assets
Proprietary Funds
June 30, 2007

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Fund |
|---|--|--------------|---------------|--------------|--|
| | Sewer | Water | Refuse | Total | |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 448,284 | \$ 302,958 | \$ 1,588 | \$ 752,830 | \$ 171,796 |
| Due from other governments | 464,689 | - | - | 464,689 | - |
| Accounts receivable | 36,062 | 37,127 | 10,728 | 83,917 | - |
| Inventories | - | 18,680 | - | 18,680 | - |
| Total current assets | 949,035 | 358,765 | 12,316 | 1,320,116 | 171,796 |
| Noncurrent assets: | | | | | |
| Special assessments receivable | - | 29,688 | - | 29,688 | - |
| Capital assets not being depreciated | 1,978,803 | 65,526 | - | 2,044,329 | - |
| Capital assets being depreciated, net | 277,455 | 1,904,461 | - | 2,181,916 | 171,184 |
| Total noncurrent assets | 2,256,258 | 1,999,675 | - | 4,255,933 | 171,184 |
| Total assets | 3,205,293 | 2,358,440 | 12,316 | 5,576,049 | 342,980 |
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 467,929 | 13,389 | - | 481,318 | 1,291 |
| Accrued payroll | 683 | 757 | 22 | 1,462 | 160 |
| Due to other funds | - | - | 1,500 | 1,500 | - |
| Bonds and notes payable, current portion | - | 33,000 | - | 33,000 | - |
| Total current liabilities | 468,612 | 47,146 | 1,522 | 517,280 | 1,451 |
| Noncurrent liabilities: | | | | | |
| Bonds and notes payable, net of current portion | 1,780,689 | 1,166,000 | - | 2,946,689 | - |
| Compensated absences, net of current portion | 3,026 | 3,271 | 146 | 6,443 | 463 |
| Total noncurrent liabilities | 1,783,715 | 1,169,271 | 146 | 2,953,132 | 463 |
| Total liabilities | 2,252,327 | 1,216,417 | 1,668 | 3,470,412 | 1,914 |
| Net Assets | | | | | |
| Invested in capital assets, net of related debt | 475,569 | 770,987 | - | 1,246,556 | 171,184 |
| Restricted for bond payment | - | 112,375 | - | 112,375 | - |
| Unrestricted | 477,397 | 258,661 | 10,648 | 746,706 | 169,882 |
| Total net assets | \$ 952,966 | \$ 1,142,023 | \$ 10,648 | \$ 2,105,637 | \$ 341,066 |

The accompanying notes are an integral part of these financial statements.

City of Reading
Reconciliation of Net Assets on the Statement of
Net Assets for Enterprise Funds to Net Assets of
Business-type Activities on the Statement of Net Assets
June 30, 2007

| | |
|-------------------------------|--------------|
| Net assets - enterprise funds | \$ 2,105,637 |
|-------------------------------|--------------|

Amounts reported for business-type activities in the statement of net assets are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The portion of the net assets of the internal service fund attributable to these charges are included in business-type activities in the statement of net assets.

| | |
|--|--------------|
| Add: net assets of business-type activities accounted for in the internal service fund | <u>7,944</u> |
|--|--------------|

| | |
|--|----------------------------|
| Net assets of business-type activities | <u><u>\$ 2,113,581</u></u> |
|--|----------------------------|

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - |
|---|--|---------------------|------------------|---------------------|----------------------------------|
| | | | | | Internal Service Fund |
| | Sewer | Water | Refuse | Total | |
| Operating revenues | | | | | |
| Charges for services | \$ 193,455 | \$ 216,398 | \$ 54,606 | \$ 464,459 | \$ - |
| Rent | - | - | - | - | 68,667 |
| Other | 204,769 | 179 | - | 204,948 | - |
| Total operating revenues | 398,224 | 216,577 | 54,606 | 669,407 | 68,667 |
| Operating expenses | | | | | |
| Operations and maintenance | 102,297 | 124,384 | 54,944 | 281,625 | 37,177 |
| Depreciation | 16,924 | 55,672 | - | 72,596 | 35,584 |
| Total operating expenses | 119,221 | 180,056 | 54,944 | 354,221 | 72,761 |
| Operating income (loss) | 279,003 | 36,521 | (338) | 315,186 | (4,094) |
| Nonoperating revenues (expenses) | | | | | |
| Investment income | 1,094 | 9,418 | - | 10,512 | 4,670 |
| Interest expense | (3,799) | (58,786) | - | (62,585) | - |
| Gain on disposal of capital assets | - | - | - | - | 975 |
| Total nonoperating revenues (expenses) | (2,705) | (49,368) | - | (52,073) | 5,645 |
| Other financing sources (uses) | | | | | |
| Transfers out | (31,794) | - | - | (31,794) | - |
| Change in net assets | 244,504 | (12,847) | (338) | 231,319 | 1,551 |
| Net assets, beginning of year | 708,462 | 1,154,870 | 10,986 | 1,874,318 | 339,515 |
| Net assets, end of year | \$ 952,966 | \$ 1,142,023 | \$ 10,648 | \$ 2,105,637 | \$ 341,066 |

The accompanying notes are an integral part of these financial statements.

City of Reading
Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Proprietary Funds
to the Statement of Activities
For the Year Ended June 30, 2007

| | |
|---|------------|
| Net change in net assets - total enterprise funds | \$ 231,319 |
|---|------------|

Amounts reported for *business-type activities* in the statement of activities are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with business-type activities.

| | |
|---|----------------|
| Deduct: net operating loss from business-type activities in the internal service fund | <u>(1,352)</u> |
|---|----------------|

| | |
|--|--------------------------|
| Change in net assets of business-type activities | <u><u>\$ 229,967</u></u> |
|--|--------------------------|

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Fund |
|--|--|-------------------|-----------------|-------------------|--|
| | Sewer | Water | Refuse | Total | |
| Cash flows from operating activities | | | | | |
| Cash received from customers and others | \$ (72,736) | \$ 213,252 | \$ 53,176 | \$ 193,692 | \$ 68,667 |
| Cash payments to suppliers for goods and services | 406,958 | (80,347) | (53,636) | 272,975 | (37,684) |
| Cash payments to employees | (41,042) | (41,997) | (1,162) | (84,201) | 834 |
| Net cash provided (used) by operating activities | 293,180 | 90,908 | (1,622) | 382,466 | 31,817 |
| Cash flows from investing activities | | | | | |
| Investment income | 1,094 | 9,418 | - | 10,512 | 4,670 |
| Cash flows from capital and related financing activities | | | | | |
| Purchase of capital assets | (1,780,689) | (51,976) | - | (1,832,665) | (37,841) |
| Proceeds from sale of capital assets | - | - | - | - | 975 |
| Bond proceeds | 1,780,689 | - | - | 1,780,689 | - |
| Bond principal payments | - | (32,000) | - | (32,000) | - |
| Bond interest payments | (3,799) | (58,786) | - | (62,585) | - |
| Net cash provided (used) by capital and related financing activities | (3,799) | (142,762) | - | (146,561) | (36,866) |
| Cash flows from non-capital financing activities | | | | | |
| Transfers to other funds | (31,794) | - | - | (31,794) | - |
| Net increase (decrease) in cash and cash equivalents | 258,681 | (42,436) | (1,622) | 214,623 | (379) |
| Cash and cash equivalents, beginning of year | 189,603 | 345,394 | 3,210 | 538,207 | 172,175 |
| Cash and cash equivalents, end of year | \$ 448,284 | \$ 302,958 | \$ 1,588 | \$ 752,830 | \$ 171,796 |

Continued

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2007

| | <u>Business-type Activities - Enterprise Funds</u> | | | | <u>Governmental Activities - Internal Service Fund</u> |
|---|--|------------------|-------------------|-------------------|--|
| | <u>Sewer</u> | <u>Water</u> | <u>Refuse</u> | <u>Total</u> | |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | | | |
| Operating income (loss) | \$ 279,003 | \$ 36,521 | \$ (338) | \$ 315,186 | \$ (4,094) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Depreciation | 16,924 | 55,672 | - | 72,596 | 35,584 |
| Changes in assets and liabilities: | | | | | |
| Accounts receivable - customers | (6,271) | (10,788) | (1,430) | (18,489) | - |
| Due from other governments | (464,689) | - | - | (464,689) | - |
| Special assessments receivable - noncurrent | - | 7,463 | - | 7,463 | - |
| Inventories | - | (61) | - | (61) | - |
| Accounts payable | 467,352 | 9,708 | (22) | 477,038 | 146 |
| Accrued and other liabilities | 683 | (7,843) | 22 | (7,138) | 160 |
| Compensated absences payable | 178 | 236 | 146 | 560 | 21 |
| Net cash provided (used) by operating activities | <u>\$ 293,180</u> | <u>\$ 90,908</u> | <u>\$ (1,622)</u> | <u>\$ 382,466</u> | <u>\$ 31,817</u> |

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Fiduciary Net Assets
All Fiduciary Funds
June 30, 2007

| | <u>Agency Fund</u> |
|--------------------------------|-----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 2,916 |
| | <u> </u> |
| Liabilities | |
| Do to other governmental units | \$ 2,916 |
| | <u> </u> |

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF READING, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Reading, Michigan is a municipal corporation governed by a five-member council and by an appointed City Manager. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable.

Discretely presented component unit:

The City's Tax Increment Financing Authority (TIFA) (the "Authority") is organized and incorporated as authorized by the Tax Increment Authority Act, P.A. 450 of 1980. The Authority is a component unit of the City of Reading, Michigan governed by a separate board appointed by the City Council, created to promote economic growth in the City of Reading, Michigan.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for major street and highway purposes.

The City reports the following nonmajor governmental funds:

The *local streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for local street and highway purposes.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

The *capital projects fund* accounts for City-wide improvement projects.

The *permanent fund* accounts for financial resources that are restricted to expenditures for the maintenance of grave sites.

The City reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the City's sewage collection system.

The *water fund* accounts for the activities of the City's water distribution and treatment system.

The *refuse fund* accounts for the operation and maintenance of the City's trash collection system.

Additionally, the City reports the following fund types:

The *internal service fund* accounts for fleet and equipment management to other departments on a cost reimbursement basis.

The agency fund for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 20-50 |
| Furniture and equipment | 5-15 |
| System infrastructure | 20-50 |
| Vehicles | 4-10 |

5. *Compensated absences*

Eligible employees may earn ninety-six hours of sick time annually. However, only eighty hours can be accumulated and carried over to the next year. Employees are paid 1/3 of earned sick leave exceeding eighty hours at the end of the fiscal year. Upon death or retirement, accumulated sick days are paid at the employee's prevailing rate of pay. Due to the uncertainty of maturity of this liability, the City has accrued the estimated amount of accumulated sick pay in noncurrent liabilities in the statement of net assets.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, net assets reported as “restricted” are subject to externally imposed restrictions by laws and regulations or grantors.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The City Manager must present the proposed budget to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than the June 1.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the functional level. Certain supplemental budgetary appropriations were made during the year which were not considered material.

B. Excess of expenditures over appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in the General Fund Public Works function by \$801.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Nets Assets as follows:

Statement of Net Assets:

| | |
|----------------------------|------------|
| Cash and cash equivalents: | |
| Governmental activities | \$ 625,478 |
| Business-type activities | 752,830 |
| Component unit | 146,023 |

Statement of Fiduciary Net Assets:

| | |
|---------------------------|--------------|
| Agency Fund: | |
| Cash and cash equivalents | <u>2,916</u> |

| | |
|--------------|---------------------------|
| Total | <u>\$1,527,247</u> |
|--------------|---------------------------|

These balances are composed of the following:

| | |
|---------------------------|---------------------------|
| Bank deposits: | |
| Checking/savings accounts | \$1,113,926 |
| Certificate of deposits | <u>413,321</u> |
| | <u>\$1,527,247</u> |

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,209,036 of the City's bank balance of \$1,517,394 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Receivables

Receivables as of year end are comprised of the following:

| | Governmental Business-type Component | | |
|--------------------------------|---|--------------------------|------------------------|
| | <u>Activities</u> | <u>Activities</u> | <u>Unit</u> |
| Taxes receivable | \$ 19,673 | \$ - | \$ 4,863 |
| Special assessments receivable | - | 29,688 | - |
| Accounts receivable | 399 | 83,917 | - |
| Due from component unit | <u>61,626</u> | <u>464,689</u> | <u>-</u> |
| Total | <u>\$ 81,698</u> | <u>\$ 578,294</u> | <u>\$ 4,863</u> |

C. Joint Venture

The City participates with Reading Township in the Reading Community Fire Department (the "Department", a joint venture pursuant to an agreement entered into between the two parties. A joint venture is based on the related contractual agreement by the two parties. The Board of Directors is comprised of two members each of the respective municipalities and the Department's Fire Chief.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

The City's investment in the joint venture is \$80,227 as of April 30, 2007, the date of the Department's most recent audit. Copies of the Department's financial statements may be obtained at the Reading Community Fire Department in Reading, Michigan.

D. Capital assets

Capital assets activity for the year ended June 30, 2007, was as follows:

Primary Government

| | Beginning Balance | Additions | Disposals | Ending Balance |
|--|----------------------|--------------------|-------------|--------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 55,674 | \$ - | \$ - | \$ 55,674 |
| Construction in process | 4,625 | - | - | 4,625 |
| Total capital assets not being depreciated | 60,299 | - | - | 60,299 |
| Capital assets, being depreciated | | | | |
| Buildings and improvements | 177,454 | - | - | 177,454 |
| Land improvements | 92,702 | - | - | 92,702 |
| Furniture and equipment | 453,156 | - | - | 453,156 |
| Vehicles | 62,951 | 37,841 | - | 100,792 |
| Total capital assets being depreciated | 786,263 | 37,841 | - | 824,104 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (99,728) | (4,396) | - | (104,124) |
| Land improvements | (3,937) | (2,539) | - | (6,476) |
| Furniture and equipment | (185,597) | (32,552) | - | (218,149) |
| Vehicles | (50,141) | (10,072) | - | (60,213) |
| Total accumulated depreciation | (339,403) | (49,559) | - | (388,962) |
| Total capital assets being depreciated, net | 446,860 | (11,718) | - | 435,142 |
| Capital assets, net | \$ 507,159 | \$ (11,718) | \$ - | \$ 495,441 |
| | | | | |
| | Balance Balance | Additions | Disposals | Balance Balance |
| <u>Business-type Activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 20,550 | \$ - | \$ - | \$ 20,550 |
| Construction in process | 191,114 | 1,832,665 | - | 2,023,779 |
| Total capital assets not being depreciated | 211,664 | 1,832,665 | - | 2,044,329 |
| Capital assets, being depreciated | | | | |
| Water and sewer distribution system | 3,560,327 | - | - | 3,560,327 |
| Equipment | 78,866 | - | - | 78,866 |
| Total capital assets being depreciated | 3,639,193 | - | - | 3,639,193 |
| Less accumulated depreciation for: | | | | |
| Water and sewer distribution system | (1,314,243) | (71,207) | - | (1,385,450) |
| Equipment | (70,438) | (1,389) | - | (71,827) |
| Total accumulated depreciation | (1,384,681) | (72,596) | - | (1,457,277) |
| Total capital assets being depreciated, net | 2,254,512 | (72,596) | - | 2,181,916 |
| Capital assets, net | \$2,466,176 | \$1,760,069 | \$ - | \$4,226,245 |

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Component Unit

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|----------------------|-------------------|-------------|-------------------|
| Capital assets, being depreciated | | | | |
| Equipment | \$ 17,860 | \$ - | \$ - | \$ 17,860 |
| Less accumulated depreciation for: | | | | |
| Equipment | (5,880) | (1,556) | - | (7,436) |
| Capital assets, net | \$ 11,980 | \$ (1,556) | \$ - | \$ 10,424 |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

| | |
|--|---------------|
| General government | \$ 5,033 |
| Public safety | 5,474 |
| Public works | 3,468 |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | <u>35,584</u> |

Total depreciation expense – governmental activities **\$ 49,559**

Business-type activities:

| | |
|-------|---------------|
| Water | \$ 55,672 |
| Sewer | <u>16,924</u> |

Total depreciation expense – business-type activities **\$ 72,596**

Tax Increment Finance Authority Component unit:

| | |
|-----------------------|------------------------|
| Community Development | <u>\$ 1,556</u> |
|-----------------------|------------------------|

CITY OF READING, MICHIGAN

Notes to the Financial Statements

E. Accounts payable and accrued liabilities

Payables are comprised of the following:

| | Governmental Activities | Business-type Activities | Component Unit |
|-------------------|------------------------------------|-------------------------------------|---------------------------|
| Accounts payable | \$ 6,477 | \$ 481,318 | \$ 10,313 |
| Other liabilities | <u>2,889</u> | <u>1,462</u> | <u>-</u> |
| Total | <u>\$ 9,366</u> | <u>\$ 482,780</u> | <u>\$ 10,313</u> |

F. Interfund receivables, payables and transfers

At June 30, 2007, the interfund receivables and payables were as follows:

| | Interfund Receivable | Interfund Payable |
|------------------------|---------------------------------|------------------------------|
| General fund | \$ 1,500 | \$ - |
| Refuse enterprise fund | <u>-</u> | <u>1,500</u> |
| | <u>\$ 1,500</u> | <u>\$ 1,500</u> |

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

For the year ended June 30, 2007, interfund transfers consisted of the following:

| Transfer from: | Transfers to: Nonmajor Governmental |
|-----------------------|--|
| General fund | \$ 15,000 |
| Major streets | 15,000 |
| Nonmajor governmental | 5,000 |
| Sewer fund | <u>31,794</u> |
| | <u>\$ 66,794</u> |

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

G. Long-term debt

Long-term debt at June 30, 2007, is comprised of the following:

Governmental activities

The City entered into a \$100,000 note payable secured by equipment, due in semi-annual installments of \$5,000, which includes interest at 3.70% through August 2, 2014.

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Amount</u> |
|--------------------------------|-----------------------|------------------|
| Governmental activities | | |
| 2005 fire truck | 3.70% | <u>\$ 75,000</u> |

Annual debt service requirements to maturity for installment obligations are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--|------------------|------------------|------------------|
| 2008 | \$ 10,000 | \$ 2,683 | \$ 12,683 |
| 2009 | 10,000 | 2,313 | 12,313 |
| 2010 | 10,000 | 1,943 | 11,943 |
| 2011 | 10,000 | 1,573 | 11,573 |
| 2012 | 10,000 | 1,203 | 11,203 |
| 2013-2017 | 25,000 | 1,388 | 26,388 |
| | <u>\$ 75,000</u> | <u>\$ 11,103</u> | <u>\$ 86,103</u> |

CITY OF READING, MICHIGAN

Notes to the Financial Statements

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the two bonds listed below was \$1,443,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Amount</u> |
|---------------------------------|-----------------------|----------------------------|
| Business-type activities | | |
| 1995 water project | 4.50% | \$ 1,021,000 |
| 1981 water system | 5.00% | <u>158,000</u> |
| | | <u>\$ 1,179,000</u> |

Revenue bond debt service requirements to maturity are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|----------------------------|--------------------------|----------------------------|
| 2008 | \$ 28,000 | \$ 53,040 | \$ 81,040 |
| 2009 | 29,000 | 51,708 | 80,708 |
| 2010 | 31,000 | 50,253 | 81,253 |
| 2011 | 32,000 | 48,778 | 80,778 |
| 2012 | 33,000 | 47,253 | 80,253 |
| 2013-2017 | 182,000 | 211,750 | 393,750 |
| 2018-2022 | 192,000 | 166,485 | 358,485 |
| 2023-2027 | 188,000 | 126,315 | 314,315 |
| 2028-2032 | 235,000 | 78,863 | 313,863 |
| 2033-2036 | <u>229,000</u> | <u>21,128</u> | <u>250,128</u> |
| | <u>\$ 1,179,000</u> | <u>\$ 855,573</u> | <u>\$ 2,034,573</u> |

The City was awarded rural development revenue bonds for which the City had drawn down \$1,780,689. The repayment of these loans is dependent on the drawdowns. Accordingly, these amounts have been excluded from the previous schedule of annual debt service requirements.

| | | |
|---------------------------------|-------|----------------------------|
| Business-type activities | | |
| 2006 sewer project | 4.25% | <u>\$ 1,780,689</u> |

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Special assessment bonds

The City entered into \$270,000 of special assessment bonds with annual payments of \$5,000 to \$10,000, which includes interest of 5% through 2009. No special assessment bonds were issued during the current year. Special assessment bonds outstanding at year end are as follows:

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Amount</u> |
|---------------------------------|-----------------------|------------------|
| Business-type activities | | |
| 1981 water improvement bonds | 5.00% | <u>\$ 20,000</u> |

Debt service requirements to maturity for special assessment bonds are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|------------------|-----------------|------------------|
| 2008 | \$ 5,000 | \$ 750 | \$ 5,750 |
| 2009 | 5,000 | 500 | 5,500 |
| 2010 | 10,000 | - | 10,000 |
| | <u>\$ 20,000</u> | <u>\$ 1,250</u> | <u>\$ 21,250</u> |

Bank notes

The TIFA entered into a \$600,000 note with monthly payments of \$3,960, which includes interest of 5% through February 25, 2010, at which time a balloon payment is the amount of \$435,322 is due in full. No notes were issued during the current year. Notes outstanding at year end are as follows:

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Amount</u> |
|--|-----------------------|-------------------|
| Tax Increment Finance Authority | | |
| Bank note | 5.00% | <u>\$ 559,903</u> |

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Changes in Long-term Liabilities

| | <u>Beginning Balances</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|-------------------------------|----------------------------|---------------------------|----------------------------|------------------------------------|
| Governmental Activities: | | | | | |
| Installment Purchase | | | | | |
| Contracts | \$ 85,000 | \$ - | \$ (10,000) | \$ 75,000 | \$ 10,000 |
| Compensated Absences | <u>5,240</u> | <u>7,528</u> | <u>(6,647)</u> | <u>6,121</u> | <u>-</u> |
| Government activity long-term liabilities | <u>\$ 90,240</u> | <u>\$ 7,528</u> | <u>\$ (16,647)</u> | <u>\$ 81,121</u> | <u>\$ 10,000</u> |
| Business-type activities: | | | | | |
| Revenue Bonds | \$ 1,206,000 | \$ 1,780,689 | \$ (27,000) | \$ 2,959,689 | \$ 28,000 |
| Special Assessment Bonds | 25,000 | - | (5,000) | 20,000 | 5,000 |
| Compensated Absences | <u>5,883</u> | <u>6,971</u> | <u>(6,411)</u> | <u>6,443</u> | <u>-</u> |
| Business-type activity long-term liabilities | <u>\$ 1,236,883</u> | <u>\$ 1,787,660</u> | <u>\$ (38,411)</u> | <u>\$ 2,986,132</u> | <u>\$ 33,000</u> |
| Component unit | | | | | |
| Bank note | <u>\$ 578,521</u> | <u>\$ -</u> | <u>\$ (18,618)</u> | <u>\$ 559,903</u> | <u>\$ 20,616</u> |

For the governmental activities, compensated absences are generally liquidated by the general fund.

H. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Water Fund and the Sewer Fund are each reported as major funds in the fund financial statements and account entirely for a specific segment, disclosures are not required herein.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the City carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2006 levy were assessed and equalized at \$13,415,518 (not including properties subject to Industrial Facilities Tax exemption). The City's general operating tax rate for fiscal year 2006-07 was 12.5302 mills.

C. Defined benefit pension plan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

The City is required to contribute at an actuarially determined rate; the current rate is 5.5% of annual covered payroll. City employees are not required to contribute to the plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City.

For the year ended June 30, 2007, the City's annual pension cost of \$8,476 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 25 years.

Three-Year Trend Information

| <u>Years Ended June 30,</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage Contributed</u> | <u>Net Pension Obligation</u> |
|---------------------------------|--|-----------------------------------|-----------------------------------|
| 2005 | \$ 7,848 | 100% | \$ - |
| 2006 | 8,197 | 100 | - |
| 2007 | 8,476 | 100 | - |

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>(a) Actuarial Value of Assets</u> | <u>(b) Actuarial Accrued Liability (AAL) Entry Age</u> | <u>(b-a) Unfunded AAL (UAAL)</u> | <u>Funded Ratio Total</u> | <u>(c) Covered Payroll</u> | <u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 12/31/04 | \$173,376 | \$196,854 | \$16,934 | 88% | \$141,888 | 17% |
| 12/31/05 | 187,606 | 221,346 | 33,740 | 85% | 157,975 | 21% |
| 12/31/06 | 204,873 | 230,408 | 25,535 | 89% | 150,206 | 17% |

CITY OF READING, MICHIGAN

Notes to the Financial Statements

D. Restatement

Beginning net assets of the governmental activities at July 1, 2006 were restated as follows:

| | |
|---|----------------------------|
| Balance per prior year financial statement | \$ 2,387,673 |
| Adjust for cemetery grave sites - not recognizable as assets on June 30, 2006. | (1,299,600) |
| Reclass of expendable trust fund properly as permanent fund. | 7,289 |
| Adjustment of pension benefit obligation which is not a liability under current reporting standards | <u>33,739</u> |
| Balance, as restated, at July 1, 2006 | <u><u>\$ 1,129,101</u></u> |

* * * * *

SUPPLEMENTARY INFORMATION

City of Reading
Detailed Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2007

| | Original Budget | Final Budget | Actual | Over (Under) Budget |
|-----------------------------|----------------------------|--------------------------|--------------------------|------------------------------------|
| Expenditures | | | | |
| General government: | | | | |
| Council | \$ 14,913 | \$ 15,913 | \$ 13,823 | \$ (2,090) |
| Manager | 8,971 | 9,971 | 8,840 | (1,131) |
| Elections | 2,180 | 2,180 | 1,124 | (1,056) |
| Audit | 7,500 | 7,500 | 7,370 | (130) |
| Legal | 8,000 | 10,000 | 6,576 | (3,424) |
| Clerk/Treasurer | 14,636 | 16,636 | 13,821 | (2,815) |
| Assessor/Treasurer | 9,398 | 9,398 | 8,027 | (1,371) |
| Buildings and grounds | 36,113 | 43,113 | 41,192 | (1,921) |
| Cemeteries | 34,340 | 36,340 | 36,439 | 99 |
| Insurance | 19,500 | 19,500 | 19,017 | (483) |
| Contingency | - | 650 | 625 | (25) |
| Total general government | <u>155,551</u> | <u>171,201</u> | <u>156,854</u> | <u>(14,347)</u> |
| Public safety: | | | | |
| Police | 72,023 | 72,023 | 56,713 | (15,310) |
| Fire contribution | 32,380 | 32,380 | 22,000 | (10,380) |
| Total public safety | <u>104,403</u> | <u>104,403</u> | <u>78,713</u> | <u>(25,690)</u> |
| Public works: | | | | |
| Street lighting | <u>17,400</u> | <u>17,400</u> | <u>18,201</u> | <u>801</u> |
| Community development: | | | | |
| Planning | 4,007 | 4,007 | 3,656 | (351) |
| TIFA administration | 36,062 | 36,062 | 33,757 | (2,305) |
| Total community development | <u>40,069</u> | <u>40,069</u> | <u>37,413</u> | <u>(2,656)</u> |
| Recreation and culture: | | | | |
| Parks and recreation | <u>3,000</u> | <u>3,000</u> | <u>-</u> | <u>(3,000)</u> |
| Debt service: | | | | |
| Principal | 10,000 | 10,000 | 10,000 | - |
| Interest | 3,053 | 3,053 | 3,049 | (4) |
| Total public works | <u>13,053</u> | <u>13,053</u> | <u>13,049</u> | <u>(4)</u> |
| Total expenditures | <u><u>\$ 333,475</u></u> | <u><u>\$ 349,125</u></u> | <u><u>\$ 304,230</u></u> | <u><u>\$ (44,895)</u></u> |

City of Reading
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

| | <u>Special Revenue Local Streets</u> | <u>Capital Projects Fund</u> | <u>Permanent Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|---|--|--------------------------------------|---------------------------|--|
| <u>ASSETS</u> | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 1,901 | \$ - | \$ 7,340 | \$ 9,241 |
| Due from other governments | 3,425 | - | - | 3,425 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <u>TOTAL ASSETS</u> | \$ 5,326 | \$ - | \$ 7,340 | \$ 12,666 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 385 | \$ - | \$ - | \$ 385 |
| Accrued payroll | 345 | - | - | 345 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total liabilities | 730 | - | - | 730 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balances: | | | | |
| Unreserved: | | | | |
| Undesignated | 4,596 | - | 7,340 | 11,936 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total fund balances | 4,596 | - | 7,340 | 11,936 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <u>TOTAL LIABILITIES AND FUND BALANCES</u> | \$ 5,326 | \$ - | \$ 7,340 | \$ 12,666 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The accompanying notes are an integral part of these financial statements.

City of Reading
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

| | <u>Special Revenue Local Streets</u> | <u>Capital Projects Fund</u> | <u>Permanent Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|---------------------------------------|--|--------------------------------------|---------------------------|--|
| Revenues | | | | |
| Interest revenue | \$ - | \$ - | \$ 51 | \$ 51 |
| Intergovernmental | 19,938 | - | - | 19,938 |
| Total revenues | 19,938 | - | 51 | 19,989 |
| Expenditures | | | | |
| Current: | | | | |
| Public works | - | 41,794 | - | 41,794 |
| Highways and streets | 39,981 | - | - | 39,981 |
| Total expenditures | 39,981 | 41,794 | - | 81,775 |
| Revenues over (under) expenditures | (20,043) | (41,794) | 51 | (61,786) |
| Other financing sources (uses) | | | | |
| Transfers in | 25,000 | 41,794 | - | 66,794 |
| Transfers out | (5,000) | - | - | (5,000) |
| Total other financing sources (uses) | 20,000 | 41,794 | - | 61,794 |
| Net change in fund balances | (43) | - | 51 | 8 |
| Fund balances, beginning of year | 4,639 | - | 7,289 | 11,928 |
| Fund balances, end of year | <u>\$ 4,596</u> | <u>\$ -</u> | <u>\$ 7,340</u> | <u>\$ 11,936</u> |

The accompanying notes are an integral part of these financial statements.

City of Reading
Schedule of Revenues, Expenditures and Changes in Fund Balance
Local Streets Special Revenue Fund
For the Year Ended June 30, 2007

| | Original Budget | Original/ Amended Budget | Actual | Over (Under) Budget |
|--------------------------------------|----------------------------|---|-----------------|------------------------------------|
| Revenue | | | | |
| Intergovernmental | \$ 19,500 | \$ 19,500 | \$ 19,938 | \$ 438 |
| Expenditures | | | | |
| Public works | 36,666 | 36,666 | 39,981 | 3,315 |
| Revenue under expenditures | (17,166) | (17,166) | (20,043) | (2,877) |
| Other financing sources | | | | |
| Transfers in | 60,000 | 60,000 | 25,000 | (35,000) |
| Transfers out | (44,000) | (44,000) | (5,000) | 39,000 |
| Total other financing sources (uses) | 16,000 | 16,000 | 20,000 | 4,000 |
| Net change in fund balance | (1,166) | (1,166) | (43) | 1,123 |
| Fund balance, beginning of year | 4,639 | 4,639 | 4,639 | - |
| Fund balance, end of year | \$ 3,473 | \$ 3,473 | \$ 4,596 | \$ 1,123 |

City of Reading
Statement of Net Assets / Governmental Fund Balance Sheet
Tax Increment Finance Authority Component Unit
June 30, 2007

| | <u>Governmental Fund</u> | <u>Adjustments</u> | <u>Statement of Net Assets</u> |
|---|-------------------------------------|---------------------------|---|
| Assets | | | |
| Cash and cash equivalents | \$ 146,023 | \$ - | \$ 146,023 |
| Taxes receivable | 4,863 | - | 4,863 |
| Assets held for resale | - | 909,469 | 909,469 |
| Capital assets being depreciated, net | - | 10,424 | 10,424 |
| | <u>-</u> | <u>10,424</u> | <u>10,424</u> |
| Total assets | <u><u>\$ 150,886</u></u> | <u>919,893</u> | <u>1,070,779</u> |
| Liabilities | | | |
| Accounts payable | 10,313 | - | 10,313 |
| Long-term debt: | | | |
| Due within one year | - | 20,616 | 20,616 |
| Due in more than one year | - | 539,287 | 539,287 |
| | <u>-</u> | <u>539,287</u> | <u>539,287</u> |
| Total liabilities | 10,313 | <u>559,903</u> | <u>570,216</u> |
| Fund balance | | | |
| Unreserved, undesignated | <u>140,573</u> | (140,573) | - |
| Total liabilities and fund balance | <u><u>\$ 150,886</u></u> | | |
| Net assets | | | |
| Invested in capital assets | | - | - |
| Unrestricted | | <u>359,990</u> | <u>500,563</u> |
| Total net assets | | <u><u>\$ 359,990</u></u> | <u><u>\$ 500,563</u></u> |

City of Reading
Statement of Activities and Governmental Fund
Revenues, Expenditures, and Changes in Fund Balance
Tax Increment Finance Authority Component Unit
For the Year Ended June 30, 2007

| | <u>Governmental Fund</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|----------------------------------|-------------------------------------|---------------------------|---|
| Expenses | | | |
| Community development | \$ 73,326 | \$ 1,556 | \$ 74,882 |
| Debt service: | | | |
| Principal | 18,618 | (18,618) | - |
| Interest and fiscal charges | 28,902 | - | 28,902 |
| | <u>120,846</u> | <u>(17,062)</u> | <u>103,784</u> |
| Total expenses | | | |
| | <u>120,846</u> | <u>(17,062)</u> | <u>103,784</u> |
| Program revenues | | | |
| Charges for services | 50,555 | - | 50,555 |
| | <u>50,555</u> | <u>-</u> | <u>50,555</u> |
| Net expense | (70,291) | 17,062 | (53,229) |
| | <u>(70,291)</u> | <u>17,062</u> | <u>(53,229)</u> |
| General revenues | | | |
| Property taxes | 80,745 | - | 80,745 |
| Unrestricted investment earnings | 4,452 | - | 4,452 |
| | <u>85,197</u> | <u>-</u> | <u>85,197</u> |
| Total general revenues | | | |
| | <u>85,197</u> | <u>-</u> | <u>85,197</u> |
| Change in net assets | 14,906 | 17,062 | 31,968 |
| | <u>14,906</u> | <u>17,062</u> | <u>31,968</u> |
| Net assets, beginning of year | 125,667 | 342,928 | 468,595 |
| | <u>125,667</u> | <u>342,928</u> | <u>468,595</u> |
| Net assets, end of year | <u><u>\$ 140,573</u></u> | <u><u>\$ 359,990</u></u> | <u><u>\$ 500,563</u></u> |

**CITY OF READING,
MICHIGAN**

SINGLE AUDIT

For the Year Ended June 30, 2007



REHMANN ROBSON

Certified Public Accountants

**CITY OF READING, MICHIGAN
SINGLE AUDIT**

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REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 21, 2007

Honorable Mayor and Members
of the City Council
City of Reading, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF READING, MICHIGAN** (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Reading in a separate letter dated December 21, 2007.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

December 21, 2007

Honorable Mayor and Members
of the City Commission
City of Reading, Michigan

Compliance

We have audited the compliance of the **CITY OF READING, MICHIGAN** (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Entity's internal control. We did not consider the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-2 to be a material weakness.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Reading, Michigan* as of and for the year ended June 30, 2007, and have issued our report thereon dated December 21, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF READING, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

| Federal/Pass-through Grantor Program Title | CFDA Number | Pass-through Grantor Number | Award Amount | Federal Expenditures |
|---|------------------------|--|-------------------------|---------------------------------|
| U.S. Department of Agriculture | | | | |
| Direct Programs: | | | | |
| Water and Waste Disposal Systems for Rural Communitie | | | | |
| 2006/2007 | 10.760 | -n/a- | \$ 2,490,000 | <u>\$ 1,780,689</u> |
| Total Expenditures of Federal Awards | | | | <u><u>\$ 1,780,689</u></u> |

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements
noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified
not considered to be material weaknesses? X yes none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? yes X no

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-1 Preparation of Financial Statements in Accordance with GAAP

- Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
- Condition:** As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
- Cause:** This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2007

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation/

Comment: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

**View of
Responsible
Officials:**

The City has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2007-2 Off Books Accounts

Criteria: All funds and activities of the City should be reflected on its main general ledger system.

Condition: The City used another system to record the activity of its federal sewer loan project.

Cause: This condition was caused by the City's decision to record the activity in a separate Quickbooks system.

Effect As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation/

Comment: We recommend that the City record, at least in summary form, the financial activity of the federal loan project on its formal general ledger system.

**View of
Responsible
Officials:**

The City will plan on recording this activity in the general ledger in the 2007-08 fiscal year.

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2007-3 Adjustment of year-end trial balance

Criteria: The City is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Several significant adjustments were necessary to agree key account to their proper underlying balances included recording of federal expenditures and receipts.

Cause: Internal controls did not detect all adjustments necessary to properly record year-end adjustments. The condition was caused by the City relying, in part, on its external auditors to assist with proposing certain year end accrual and other adjustments.

Effect: As a result of this condition, the City is not able to produce accurate financial information that would allow those charged with governance to make fully informed financial decisions.

Recommendation/

Comment: We recommend that the City provide a reasonably adjusted trial balance with all activity recorded and balance sheet accounts adjusted in future closings.

View of

Responsible

Officials: The City will strive to provide a reasonably adjusted trial balance to the auditors in future year-end closings.

SECTION IV – PRIOR YEAR FINDINGS

A Single audit was not necessary, therefore no matters were noted

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



December 21, 2007

To the City Council of the
City of The City of Reading
The City of Reading, Michigan

We have audited the financial statements of the City of Reading for the year ended June 30, 2007, and have issued our report thereon dated December 21, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated March 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Reading's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Reading's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about The City of Reading's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Reading's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Reading's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Reading are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Reading during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Reading's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, several of the adjustments we proposed, which were recorded by the City of Reading, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Reading's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Reading's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

The City of Reading

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the City of Reading as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

The City of Reading

Comments and Recommendations

For the Year Ended June 30, 2007

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the City's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the City's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. During our audit, we noted processes that would enhance the City's internal controls as follows.

- Completed bank reconciliations should be reviewed by someone other than the individual who prepared them.
- Unused check stock should be kept in a lock box or other secure area until ready for each check run.
- The City should approve a formal policy on using credit cards.

* * * * *